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C O N F I D E N T I A L SECTION 01 OF 03 GEORGETOWN 001303

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TAGS: [SENV](#) [EAGR](#) [EAID](#) [PGOV](#) [KCOR](#) [KFRD](#) [XB](#) [CH](#) [GY](#)
SUBJECT: GUYANA'S TROUBLED FORESTRY SECTOR

REF: A. GEORGETOWN 00294

[1](#)B. GEORGETOWN 00947

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Classified By: AMBASSADOR DAVID M. ROBINSON FOR REASON 1.4(D)

[1](#)1. (C) Summary: Amid recent public outcry over unscrupulous business practices in Guyana's poorly monitored forestry sector, the Guyana Forestry Commission (GFC) has announced an investigation into allegations of transfer pricing. Despite some companies' official agreements with the GOG on providing employment and economic growth via value-added exports, raw logs remain the most popular forest export. Due to special tax breaks for large concessionaires and conspicuous under-valuation of exports by some companies, Guyana earns less than US \$5 for each exported raw log. While the transfer pricing probe and a soon-to-be-announced carbon trading scheme may allow Guyana to benefit from its forest resources in a more equitable and sustainable way, it remains to be seen whether upcoming forestry legislation revisions will address other pressing concerns in the forestry community, including corruption, use of timber companies as fronts for illegal activities, and exploitation of hinterland Amerindian communities. End Summary.

RAW LOGS FAIL TO CREATE JOBS, TAX REVENUE

[1](#)2. (U) A recent public controversy has brought to light that two large transnational companies--the Malaysian/South Korean Barama Company Ltd and the Canadian/Hong Kong Jaling Forest Industries--may have failed to honor their agreements to export value-added products and hire Guyanese workers, and may have engaged in transfer pricing. Janette Bulkan, a Yale University Forestry PhD student and community and environmental activist, has calculated that most logs are valued for customs in Guyana at US \$90 per cubic meter, while Asian importing countries report a value closer to US \$380 per square meter. Bulkan estimates that this type of transfer pricing costs Guyana approximately US \$3 million a month.

13. (C) Hamley Case, a member of the Guyana Forestry Commission Board who is also an opposition People's National Congress Reform (PNCR) Member of Parliament and PNCR Executive Committee member, advocates for gradual implementation of a total ban on raw log exports, and believes that companies should only be allowed to export species that cannot be turned into value-added products in Guyana. Case said that although there was some support in the Forestry Commission for such a ban, several Board members currently profiting from raw log exports were opposed. According to David Singh--the Director General of the Iwokrama International Center, an important national forest preserve--Ecuador is the only other country in South America besides Guyana which still allows raw log exports.

14. (C) On December 8, Minister of Agriculture Robert Persaud and Commissioner of Forests James Singh held a press conference to announce an investigation into allegations of transfer pricing. A report on the investigation is expected in January. Persaud told EmbOffs that the probe was not a response to public pressure--his office and the GFC had suspected transfer pricing for some time, but had not had any evidence. Persaud also said he had made it clear to Barama that they needed to pay normal tax rates for timber harvested outside their duty-free concession. Persaud said that the draft Forestry Bill he had just received will establish a system for controlling log exports. He considers a complete ban on log exports financially unfeasible, but supports a ban on the export of species that can be converted into value-added products in Guyana.

SOME CHINESE "TIMBER WORKERS" HAVE NEVER SEEN A CHAINSAW

15. (C) Bulkan and John Palmer--the former director of the U.K.'s Department for International Development (DFID) Forestry Research Program in Guyana--claim that several Chinese companies in Guyana are using their timber operations as a front to facilitate the onward travel of illegal Chinese immigrants. Companies have allegedly brought in Chinese workers for their timber operations who raised local eyebrows with their obvious lack of expertise in chainsaw operation or

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other relevant trades. Former Minister of Home Affairs Gail Teixeira previously told ConOff that she had received several applications for large groups of Chinese, Indians and Pakistanis allegedly coming to work in Guyana's timber industry. Suspecting that these third-country nationals were really attempting to travel further north, Teixeira began reviewing all such applications personally.

16. (C) According to Persaud, companies are required to prove that foreign staff provide expertise which is not available locally. He admitted, however, that enforcement was difficult on the ground--nobody checks if somebody brought in as an expert machinist ends up driving a truck. Companies are allowed 15% foreign staff, with a higher allowance for the first three years of operation. According to Persaud, Jaling is the only company not currently adhering to the 15% limit. Jaling officials told Persaud that their foreign staff currently represented 16-17% of the workforce, and promised to meet the 15% requirement by next year.

AMERINDIAN COMMUNITIES VULNERABLE TO BRIBES, EXPLOITATION

17. (C) Bulkan, Palmer, and Singh all agreed that Amerindians living in the remote interior in a non-cash-based subsistence economy are extremely vulnerable to bribery, and can be persuaded to sign away their rights to community lands for a low price. A former Commonwealth forester working in the interior told PolOff that a group of Amerindians had

approached him for advice on contracts proposed to them by smaller Chinese logging companies. The forester advised the Amerindian communities not to sign the contracts, which were extremely one-sided. Bulkan and Palmer have recommended that the Ministry of Amerindian Affairs provide a legal advisor and require that any Amerindian community wishing to sign a contract involving use of their titled lands have the contract vetted before signing. Persaud said that while Amerindian communities were allowed to sign contracts regarding their titled lands with anybody they chose, every company was subject to the same forestry guidelines, and in practice many of the companies contracting with Amerindian communities had already been vetted by the government due to their operations in other areas of Guyana.

18. (C) According to Singh, there is great commercial timber interest in the North Rupununi Wetlands, a large forested area directly south of the Iwokrama preserve. Although the local North Rupununi District Development Board is interested in partnering with Iwokrama to harness the forest's potential in a sustainable manner, there are many other suitors, including several Chinese companies. Logs harvested in this area could potentially be shipped to Brazil rather than to Guyana's coastland, bypassing a difficult river crossing at the other side of the Iwokrama territory. Portions of the North Rupununi Wetlands are titled to Amerindian communities, and Singh noted that even the provision of free meals could potentially earn the loyalty of local Village Councils. Singh had seen a blank contract offered to a local Amerindian community by a subsidiary of Jaling.

USAID ENCOURAGES EXPANSION OF VALUE-ADDED SECTOR

19. (U) USAID's Guyana Trade and Investment Support (GTIS) project is administering a program of market linkage activities in the wood products sector. GTIS facilitated International Wood Products Association (IWPA) membership for Guyana's Forest Product Marketing Council (FPMC), and accompanied FPMC representatives at IWPA's annual Fair in Arizona in April. GTIS estimates that contracts generated at this event have already created over US \$4 million in new wood product exports, and are likely to reach US \$15 annually. The GTIS project focuses on developing non-traditional, value-added exports and providing technology and employment boosts for local companies through linkages with international partners. Iwokrama is also attempting to launch a sustainable-use timber program focusing on value-added products, but has not yet been able to find a business partner willing to come up with the required US \$2.5 million initial investment.

CARBON CREDITS COMING SOON

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110. (C) Minister of Agriculture Persaud told EmbOffs that Guyana had already signed an MOU with the UK-based Chatham House to launch Guyana on international carbon-trading markets. A reserve of 1.7 million hectares near the border with Suriname has been set aside for carbon trading purposes. Persaud said that he was expecting revenues of \$100 million annually via trading on the European Union Emissions Trading Scheme and possibly the Chicago Stock Exchange. Persaud said that the deal was still being finalized, but he expected to make it public in the near future.

COMMENT

111. (C) Comment: Carbon credits and expansion of value-added exports could help Guyana maximize sustainable benefits from

its enormous forest resources. Yet without political will to create and enforce a comprehensive system of controls in the forestry sector, an unregulated industry is likely to continue taking a toll on Guyana's environment, security, indigenous citizens, and public coffers. End Comment.
Robinson